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SECURITIES AND EXCHANGE COMMISSION  
[Release No. 34-98952; File No. SR-ISE-2023-27]

Self-Regulatory Organizations; Nasdaq ISE, LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Adopt Pricing for Index Options on the Nasdaq 100 Micro Index

November 15, 2023.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on November 7, 2023, Nasdaq ISE, LLC (“ISE” or “Exchange”) filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change as described in Items I, and II, below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to amend the Exchange’s Pricing Schedule at Options 7 to adopt pricing for index options on the Nasdaq 100 Micro Index.<sup>3</sup>

The text of the proposed rule change is available on the Exchange’s Website at <https://listingcenter.nasdaq.com/rulebook/ise/rules>, at the principal office of the Exchange, and at the Commission’s Public Reference Room.

II. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> The Exchange withdrew SR-ISE-2023-25 on November 7, 2023 and replaced it with the instant filing.

Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange recently filed an immediately effective rule change to list index options on the Nasdaq 100 Micro Index (“XND”) on ISE.<sup>4</sup> XND will be same in all respects as the current Nasdaq 100 Index options contract (“NDX”) listed on the Exchange, except it will be based on 1/100<sup>th</sup> of the value of Nasdaq 100 Index, and will be P.M.-settled with an exercise settlement value based on the closing index value of Nasdaq 100 Index on the day of expiration.<sup>5</sup>

The Exchange now proposes to amend its Pricing Schedule to adopt pricing for XND. By way of background, certain proprietary products such as NDX, NDXP and the Nasdaq 100 Reduced Value Index (“NQX”) are commonly excluded from a variety of fee programs.<sup>6</sup> The Exchange notes that the reason for such exclusion is because the Exchange has expended considerable resources developing and maintaining its proprietary products. Similar to NDX, NDXP, and NQX, XND is a proprietary product. As such, the Exchange proposes to establish transaction fees for XND that are similarly structured to the transaction fees for NDX, NDXP, and NQX with some differences as noted below. The Exchange also proposes to exclude XND from several pricing programs in the same manner as which NDX, NDXP, and NQX are excluded today.

**Fee Programs**

Today, Options 7, Section 3, Regular Order Fees and Rebates, reflects the regular order fees and rebates applicable to ISE. Today, the Exchange specifies in note 7 of Options 7, Section

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<sup>4</sup> See ISE-2023-24 (not yet noticed). Currently, XND Options trade on Phlx.

<sup>5</sup> Id. The Exchange notes that similar features are available with other index options contracts listed on the Exchange, including P.M. settled options on the full value of the Nasdaq-100 Index (“NDXP”).

<sup>6</sup> Nasdaq Phlx LLC (“Phlx”) lists XND today and excludes XND from a variety of its pricing programs. See Phlx’s Pricing Schedule at Options 7.

3 that for all executions in regular NDX and NQX orders, the applicable index options fees in Section 5 will apply. The Exchange proposes to add pricing for XND options in note 7 of Options 7, Section 5 so it will also apply to XND.

Similarly, today, Options 7, Section 4, Complex Order Fees and Rebates, reflects complex order fees and rebates applicable to ISE. Today, the Exchange specifies in note 5 of Options 7, Section 4 that for all executions in complex NQX orders, the NQX index options fees in Section 5 will apply. The Exchange proposes to add XND in note 5 of Options 7, Section 4 so it will also apply to XND. Additionally, note 4 of Options 7, Section 4 provides that no Priority Customer complex order rebates will be paid for orders in NDX, NQX or MNX. The Exchange proposes to add XND in note 4 of Options 7, Section 4 so it will also apply to XND.

As set forth in Options 7, Section 6.H, the Exchange currently caps Crossing Order<sup>7</sup> fees at \$200,000 per month, per Member on all Firm Proprietary transactions that are part of the originating or contra side of a Crossing Order. Once a Member exceeds the fee cap level the Member will be subject to a reduced transaction fee of \$0.02 per capped contract, unless the Member also qualifies for free executions. Today, fees charged by the Exchange for Responses to Crossing Orders, surcharge fees charged by the Exchange for licensed products, and fees for index options as set forth in Options 7, Section 5 are not included in the calculation of the monthly Crossing Fee Cap. At this time, the Exchange proposes to similarly exclude fees charged for Responses to Crossing Orders, surcharge fees for licensed products, and fees for index options as set forth in Options 7, Section 5 from the calculation of the monthly Crossing Fee Cap.

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<sup>7</sup> Crossing Orders are contracts that are submitted as part of a Facilitation, Solicitation, PIM, Block or QCC order. All eligible volume from affiliated Members will be aggregated for purposes of the Crossing Fee Cap, provided there is at least 75% common ownership between the Members as reflected on each Member's Form BD, Schedule A. Fees charged by the Exchange for Responses to Crossing Orders are not included in the calculation of the monthly fee cap. For purposes of the Crossing Fee Cap the Exchange attributes eligible volume to the ISE Member on whose behalf the Crossing Order was executed.

Today, Options 7, Section 5, Index Options Fees and Rebates, reflects the pricing for various proprietary products including NDXP, NDX and NQX. At this time, the Exchange proposes to establish a similar pricing structure for XND that was adopted for XND on Phlx,<sup>8</sup> where all Non-Priority Customers<sup>9</sup> will be assessed a uniform fee of \$0.10 per contract, and Priority Customers<sup>10</sup> will not be assessed a fee. The Exchange also proposes to assess Non-Priority Customers a surcharge of \$0.10 per contract in XND in Options 7, Section 5D, similar to Phlx Options 7, Section 5A.<sup>11</sup> The Exchange is proposing to assess lower Non-Priority Customer fees and a lower surcharge for XND as compared to NDX and NDXP because XND is based on 1/100 of the value of the Nasdaq 100 Index whereas both NDX and NDXP are based on the full value of the Nasdaq 100 Index. The Exchange's proposal seeks to assess identical fees for XND as are currently assessed on Phlx for XND options.<sup>12</sup>

Today, NDX, NDXP, NQX and the Mini-Nasdaq-100 Index ("MNX") are excluded from the Marketing Fee in Options 7, Section 6E. The Exchange proposes to update Options 7, Section 6E to similarly exclude XND from the Marketing Fee. The Exchange notes that the Marketing Fee is currently set to \$0.00 per contract.

## 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>13</sup> in general, and furthers the objectives of Sections 6(b)(4) and 6(b)(5) of the Act,<sup>14</sup> in particular, in that it provides for the equitable allocation of reasonable dues, fees and other charges among

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<sup>8</sup> See Phlx Options 7, Section 5A.

<sup>9</sup> "Non-Priority Customers" include Market Makers, Non-Nasdaq ISE Market Makers (FarMMs), Firm Proprietary / Broker-Dealers, and Professional Customers. See Options 7, Section 1(c).

<sup>10</sup> A "Priority Customer" is a person or entity that is not a broker/dealer in securities, and does not place more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s), as defined in Nasdaq ISE Options 1, Section 1(a)(37). Unless otherwise noted, when used in this Pricing Schedule the term "Priority Customer" includes "Retail" as defined below. See Options 7, Section 1(c).

<sup>11</sup> The Exchange proposes to re-letter current "C" as "D" in Options 7, Section 5.

<sup>12</sup> See Phlx Options 7, Section 5A.

<sup>13</sup> 15 U.S.C. 78f(b).

<sup>14</sup> 15 U.S.C. 78f(b)(4) and (5).

members and issuers and other persons using any facility, and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The Exchange believes it is reasonable to assess the proposed Non-Priority Customer \$0.10 per contract fee and the \$0.10 per contract surcharge as discussed above for XND because the proposed pricing reflects the exclusive and proprietary nature of this product. Similar to NDX, NDXP, and NQX, the Exchange seeks to recoup the operational costs for listing proprietary products.<sup>15</sup> Also, pricing by symbol is a common practice on many U.S. options exchanges as a means to incentivize order flow to be sent to an exchange for execution in particular products. Other options exchanges price by symbol.<sup>16</sup> Further, the Exchange notes that with its products, market participants are offered an opportunity to transact in NDX, NDXP, NQX, or XND, or separately execute options overlying PowerShares QQQ Trust (“QQQ”).<sup>17</sup> Offering such proprietary products provides market participants with a variety of choices in selecting the product they desire to utilize in order to transact in the Nasdaq 100 Index. When exchanges are able to recoup costs associated with offering proprietary products, it incentivizes growth and competition for the innovation of additional products.

Further, the Exchange believes that the proposed rates for XND are reasonable because they mirror the fees assessed by Phlx for XND<sup>18</sup> and the fees are well within the range of fees assessed for the Exchange’s other proprietary products, namely NDX and NDXP.<sup>19</sup> The Exchange believes it is reasonable to charge lower rates for XND compared to NDX and NDXP

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<sup>15</sup> By way of example, in analyzing an obvious error, the Exchange would have additional data points available in establishing a theoretical price for a multiply listed option as compared to a proprietary product, which requires additional analysis and administrative time to comply with Exchange rules to resolve an obvious error.

<sup>16</sup> See pricing for the Mini-RUT Index options (“MRUT”) on Cboe Exchange, Inc.’s Fees Schedule.

<sup>17</sup> QQQ is an exchange-traded fund based on the same Nasdaq 100 Index as NDX, NDXP, and XND.

<sup>18</sup> See Phlx Options 7, Section 5A.

<sup>19</sup> Specifically, the Exchange is proposing to assess Non-Priority Customers a \$0.10 per contract fee in XND while Priority Customers will receive free executions. Today, the Exchange assesses Non-Priority Customers a \$0.75 per contract fee for both NDX and NDXP, and does not assess Priority Customers a fee. Additionally, the Exchange is proposing to assess Non-Priority Customers a surcharge of \$0.10 per contract for XND whereas today, Non-Priority Customers are assessed a surcharge of \$0.25 per contract for NDX and NDXP.

because XND is based on 1/100 of the value of the Nasdaq 100 Index while both NDX and NDXP are based on the full value of the Nasdaq 100 Index. The Exchange's proposal seeks to assess identical fees for XND as are currently assessed on Phlx for XND options.<sup>20</sup>

The Exchange's proposal to assess the proposed Non-Priority Customer \$0.10 per contract fee and the \$0.10 per contract surcharge is equitable and not unfairly discriminatory because the Exchange will assess these fees uniformly to all Non-Priority Customers. The Exchange similarly believes that the proposed \$0.10 per contract XND surcharge is equitable and not unfairly discriminatory because it will apply uniformly to all Non-Priority Customers. The Exchange believes it is equitable and not unfairly discriminatory to assess no XND fees to Priority Customers because Priority Customer orders bring valuable liquidity to the market, which liquidity benefits other market participants. Priority Customer liquidity benefits all market participants by providing more trading opportunities, which attracts Primary Market Makers and Market Makers. An increase in the activity of these market participants in turn facilitates tighter spreads, which may cause an additional corresponding increase in order flow from other market participants.

### **Fee Programs**

The proposed amendments to note 7 in Options 7, Section 3 and notes 4 and 5 in Options 7, Section 4, in connection with the application of the adopted pricing in Options 7, Section 5, are reasonable as the Exchange will apply the proposed Options 7, Section 5 pricing for options transacted in XND as opposed to the pricing in Options 7, Sections 3 and 4. The Exchange believes that the proposed amendments to note 7 in Options 7, Section 3 and notes 4 and 5 in Options 7, Section 4, in connection with the application of the adopted pricing in Options 7, Section 5, are equitable and not unfairly discriminatory because the Exchange will uniformly apply the pricing in Options 7, Section 5 for options transacted in XND.

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<sup>20</sup> See Phlx Options 7, Section 5A.

The Exchange believes that its proposal to eliminate the Priority Customer complex order rebates for XND is reasonable because even after the elimination of the rebate, Priority Customer complex orders in XND will not be assessed any complex order transaction fees. As noted above, the Priority Customer complex order rebates are likewise currently eliminated for NDX, NDXP and NQX. The Exchange's proposal to eliminate the Priority Customer complex order rebates for XND is equitable and not unfairly discriminatory because all transactions in XND will uniformly not be eligible for the rebates.

The Exchange believes that its proposal to exclude fees charged for Responses to Crossing Orders, surcharge fees for licensed products, and fees for index options as set forth in Options 7, Section 5 from the calculation of the monthly Crossing Fee Cap is reasonable because XND will be an exclusively listed product. Similar to NDX, NDXP and NQX, which are also excluded from the Crossing Fee Cap, the Exchange seeks to recoup the operational costs for listing proprietary products. The Exchange further believes that its proposal to exclude fees charged for Responses to Crossing Orders, surcharge fees for licensed products, and fees for index options as set forth in Options 7, Section 5 from the calculation of the monthly Crossing Fee Cap is equitable and not unfairly discriminatory because all fees charged for Responses to Crossing Orders, surcharge fees for licensed products, and fees for index options will uniformly be excluded from the Crossing Fee Cap.

The Exchange believes it is reasonable to not apply the Marketing Fee to XND as other proprietary products, namely NDX, NQX, and MNX, are currently excluded from the Marketing Fee and are all based on the Nasdaq 100 Index. Also, the Exchange believes it is reasonable to exclude XND from the Marketing Fee because the purpose of the Marketing Fee is to generate more Priority Customer order flow to the Exchange. Because XND will be an exclusively listed product on Phlx, the Exchange does not believe that applying a Marketing Fee is necessary for this product. Also, of note the Marketing Fee is currently set to \$0.00 per contract. The

Exchange believes it is equitable and not unfairly discriminatory to not apply the Marketing Fee to XND because all transactions in XND will uniformly not be subject to the Marketing Fee.

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. In terms of inter-market competition, the Exchange notes that it operates in a highly competitive market in which market participants can readily favor competing venues if they deem fee levels at a particular venue to be excessive, or rebate opportunities available at other venues to be more favorable. The Exchange notes that with its products, market participants are offered an opportunity to transact in NDX, NDXP, NQX, or XND, or separately execute options overlying QQQ. Offering these products provides market participants with a variety of choices in selecting the product they desire to utilize to transact in the Nasdaq 100 Index.

Further, the Exchange does not believe that the proposed rule change will impose any burden on intra-market competition that is not necessary or appropriate in furtherance of the purposes of the Act because the proposed XND pricing will apply uniformly to all similarly situated market participants. Specifically, all Non-Priority Customers will be assessed a uniform fee of \$0.10 per contract and an options surcharge of \$0.10 per contract while Priority Customers receive free executions. As discussed above, Priority Customer liquidity benefits all market participants by providing more trading opportunities, which attracts other market participants, thus facilitating tighter spreads and increased order flow.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

No written comments were either solicited or received.

### III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(ii) of the Act<sup>21</sup> and Rule 19b-4(f)(2)<sup>22</sup> thereunder. At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is: (i) necessary or appropriate in the public interest; (ii) for the protection of investors; or (iii) otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

### IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

#### Electronic Comments:

- Use the Commission's internet comment form (<https://www.sec.gov/rules/sro.shtml>); or
- Send an email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include file number SR-ISE-2023-27 on the subject line.

#### Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street NE, Washington, DC 20549-1090.

All submissions should refer to file number SR-ISE-2023-27. This file number should be included on the subject line if email is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's internet website (<https://www.sec.gov/rules/sro.shtml>). Copies

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<sup>21</sup> 15 U.S.C. 78s(b)(3)(A)(ii).

<sup>22</sup> 17 CFR 240.19b-4(f)(2).

of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street NE, Washington, DC 20549, on official business days between the hours of 10 a.m. and 3 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. Do not include personal identifiable information in submissions; you should submit only information that you wish to make available publicly. We may redact in part or withhold entirely from publication submitted material that is obscene or subject to copyright protection. All submissions should refer to file number SR-ISE-2023-27 and should be submitted on or before [INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>23</sup>

**Sherry R. Haywood,**  
*Assistant Secretary.*

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<sup>23</sup> 17 CFR 200.30-3(a)(12).